



OFFICE OF
INSURANCE COMMISSIONER

TECHNICAL ASSISTANCE ADVISORY

T 05-03

TO: Credit Life Insurers
Credit Accident and Health Insurers

SUBJECT: Minimum Credit Insurance Reserves

DATE: March 17, 2005

With the adoption of our new rule WAC 284-34-100 through 284-34-260 and the withdrawal of Bulletin 74-7, the purpose of this Technical Assistance Advisory is to state minimum valuation standards for credit life and disability insurance.

(1) Credit Life Insurance

For credit life policies and certificates issued on or after January 1, 2005, the minimum valuation standard of mortality under RCW 48.74.030(1)(g) for both male and female insureds is the 2001 CSO male composite ultimate mortality table. For policies and certificates issued after 1988 and prior to 2005, the minimum valuation standard of mortality under RCW 48.74.030(1)(g) for future reporting dates is the 1980 CSO male composite mortality table without select mortality factors.

The rates of interest for the minimum valuation standard are defined in RCW 48.74.030(3), according to the calendar year in which the individual policy or group certificate is issued.

(2) Credit Disability Insurance

RCW 48.12.060 requires a reserve no less in the aggregate than the pro rata gross unearned premiums. In this context, contract reserves calculated according to the Rule of Anticipation or the average of the Rule of 78 and pro rata methods, if consistent with the refund method actually used or required, are included in the term "pro rata."

For credit disability policies and certificates issued on or after January 1, 2002, the minimum valuation standard of morbidity for contract reserves based on assumed risks using morbidity factors is the 1985 Commissioners Individual Disability Table A (85CIDA) with claim incidence rates increased by twelve percent. The elimination period is defined by the contracts, but not to exceed fourteen days. For policies and certificates issued prior to 2002 the insurer may elect the

above standard for all future valuations, or the minimum valuation standard of morbidity for contract reserves on then-currently issued contracts, as of the date the contract was issued.

(3) If a credit insurance policy or certificate provides both life insurance and disability benefits, separate reserves must be established for the life and disability benefits. For all credit contracts in the aggregate, the insurer must establish an additional liability for any excess in the premium refund liability over the aggregate recorded reserve. This liability may recognize recoverable expenses, including commissions and premium tax. This liability should be reported as miscellaneous reserves in the Aggregate Reserve For Life Contracts, as an active life write-in in the Aggregate Reserves For Accident And Health Contracts, or as otherwise provided in the NAIC's Annual Statement Instructions.

Questions concerning this TAA should be directed to Roy Olson, Actuary, at 360-725-7136 or RoyO@oic.wa.gov.